HR ANALYTICS: EMBRACING IT FOR BETTER BUSINESS OUTCOMES

The company that leads in HR analytics wins the war

Expert Opinions

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An age-old saying in the world of business goes something like this 'The company that wins the war for talent wins the war.' Talent has long been recognised as the catalyst for good business outcomes. And to this day, no business leader disputes the wisdom of this saying. However, the varied HR practices among companies, coupled with equally varied marketplace outcomes, have led academics and HR consultants alike to raise important questions relating to talent. 'What kind of management and non-management staff should companies look for?' 'Should talent be acquired externally or developed internally?' 'What kind of training should companies plan to optimise the development of human capital in their organisation?' The list of HR-related questions goes on. Sadly, textbook prescribed answers are inadequate. They do not take into account the different contexts that these organisations are operating in. The one-size-fit-all approach does not work!

But companies today have an important tool to help them make important HR decisions – the use of analytics. Analytics – or being data driven – is a well-formed discipline in the field of marketing. Marketers use analytics to have a deeper understanding of their customers and consequently make 'right' decisions. Today, the best companies leverage on the knowledge and application of analytics in human resources to make decisions about HR initiatives. These companies know the impact of every HR initiative on their business outcome. They are able to predict every initiative's return of investment. Professor Davenport and his team of researchers noted that Best Buy, an electronics retail store in the USA, used analytics and determined that a 0.1% increase in employee engagement at a particular store translates into a US$100K increase in the store's operating revenue. The researchers added that AT&T and Google found that, for their companies, the ability to take initiative, rather than stellar academic records from prestigious schools is a far better predictor of high performance on a job.

HR analytics has enabled these companies to i) optimise their spending on good employee initiatives, ii) focus on HR initiatives

that have the greatest impact on business outcome, and iii) determine the return on investment of HR decisions. This also means that analytics have moved the HR function away from a passive organisational role. It is now just as important as, for instance, the marketing department and is responsible for their companies' marketplace outcomes.

What is HR Analytics?

To date, the term HR analytics is still loosely used, with little consensus on what it constitutes. Some authors such as Dr. Scott Mondore and his team from Strategic Management Decisions have taken a narrower definition and suggest that only analyses that focuses on the link between employee data and business outcomes constitutes HR analytics. Hence efficiency metrics, scorecards and gap analyses do not count as HR analytics.

Other researchers, such as Professor Davenport and his team, adopt a broader view of HR analytics and consider the term to include a range of analyses performed on HR data. (See Figure 1 for Prof. Davenport's Ladder of HR Analytics)

However, the authors make clear of the greater competitive advantage to companies of analyses that are higher up the ladder. Not surprisingly, these are also the analyses that are considered by the researchers who define HR analytics more narrowly to be HR analytics. In short, almost all researchers and consultants agree that the real gems in HR analytics are those that use modelling methods to examine cause-effect relationships (e.g.
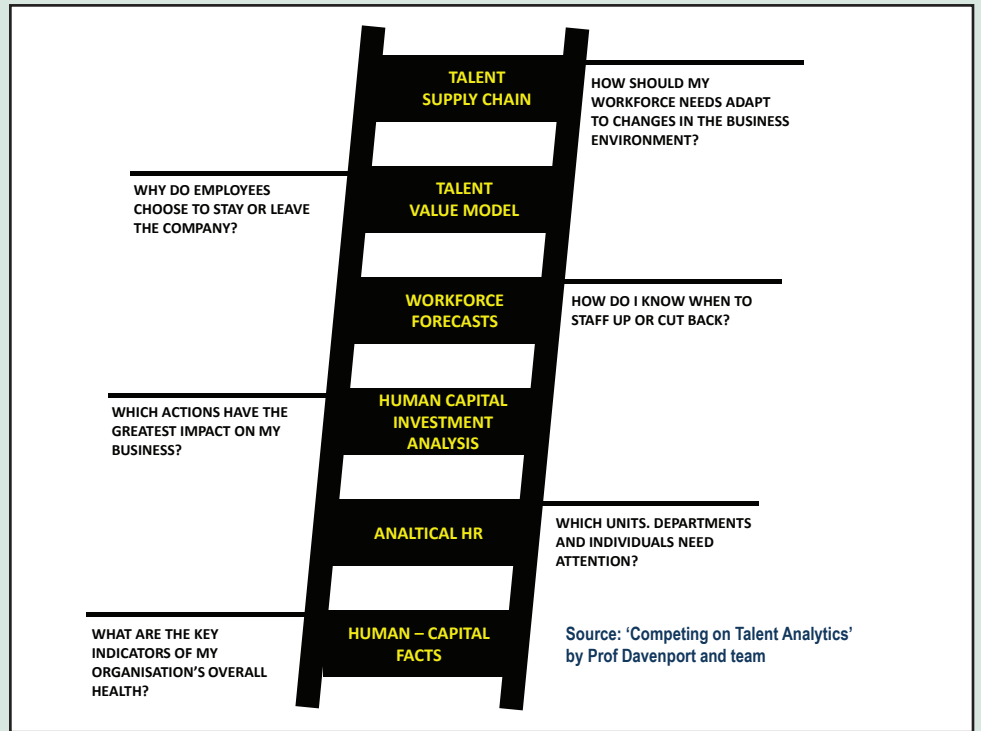

Figure 1: Davenport's Ladder of HR Analytics

how HR initiatives impact business outcomes). An illustration of a simple cause-effect employee engagement model is shown in Figure 2.

The model offers answers on the kind of HR initiatives that will have the greatest impact on business performance by examining the structural links between organisational factors, employee engagement, retention and productivity. No resources are wasted on initiatives that have little impact on business performance. With

models being developed for different groups of employees e.g. managers, non-managers, IT staff, sales staff etc., companies will be able to tailor HR initiatives for the different employees. This is just one of the many applications of HR analytics. It is not the intention of this article to discuss all the applications of HR analytics as there are already many good papers written on these. Advanced readers could find articles such as 'Competing on talent analytics' by Thomas H. Davenport et el, 'Using employee opinions about organisa-
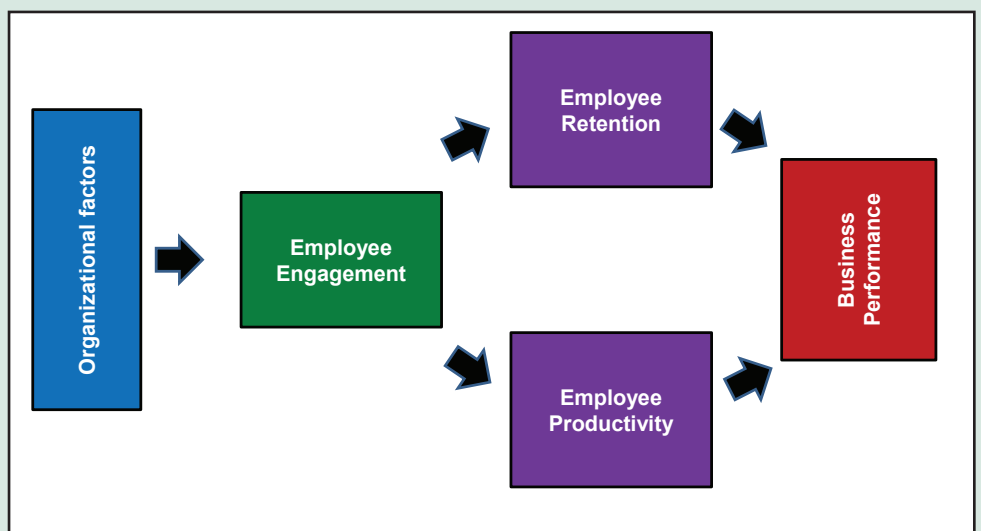

Figure 2: Employee Engagement To Business Performance Model

tional performance to enhance employee engagement surveys: Model building and validation' by Jack W. Wiley, 'Using targeted analytics to improve talent decisions' by Alec Levenson useful in learning more about HR analytics applications. This short commentary is written as a primer to help readers understand the meaning and need for HR analytics in organisations today. It also addresses some challenges organisations will face when embarking on the journey of analytics.

Talent for HR Analytics

Despite the tremendous benefits of HR analytics to companies, few companies leverage on it when developing HR initiatives. In a recent study by Dr. Alec Levenson of the University of Southern California, the author found that only about 35% of companies use HR insights to help them make better decisions. This figure is likely to be even lower if the strict definition of HR analytics (analytics that examines causal links between employee data and business outcomes) is used. The low HR analytics adoption rate, coupled with its benefits, suggest that companies that embrace this tool for decision making today immediately sets itself apart from the rest of competition. And by the end of the decade, when more companies have jumped onto the analytics bandwagon, laggard companies that have not done so will find it difficult to stay afloat.

The low rate of adoption of the use of analytics by HR professionals is likely to be attributed to the level of analytical expertise needed for undertaking HR analytics work. Analytics is not a required core competency of HR professionals.

Dr. Levenson noted that only 3% of HR practitioners (excluding the HR analytics group) are proficient in the use of advanced multivariate analyses, which is a class of analytical methods necessary for undertaking HR analytics. The use of structural equation data modelling, the main analytical method used in cause-effect HR analytics, effectively limits the practitioners to those holding post-graduate degrees in quantitative analysis.

However, this perceived difficulty should not be an obstacle to HR professionals hoping to incorporate HR analytics in their work. Attitudes towards the use of HR analytics and expertise in undertaking analytics are separate concepts, with the former being the more important of the two. Expertise can be developed or bought. Companies can outsource analytics work to professors and consulting firms with quantitative expertise. If they wish, they can also develop in-house analytical capabilities. Universities such as the Singapore Management University offers certificated basic and advanced analytical training workshops. Hence, the ease of access to analytical expertise suggests a level playing field with regards to analytical resource availability.

The Real Difference

As mentioned above, the more important factor that determines if companies can unleash the full power of HR analytics is their managements' attitude towards this field. The willingness of management and the confidence of the team in allowing evidence-based decision making through HR analytics is what makes these companies stand out from their peers.

To this end, two things must happen. HR staff must have deep understanding of the use of analytics and senior management must be acquainted with the development of this field to lend support to the greater use of support evidence-led HR initiatives. Instead of viewing HR as a non-strategic function, they should view HR as playing a strategic role in their organisations with initiatives that impact business outcomes. They are now also accountable for meeting business objectives.

Taking the First Step

Data modelling in HR analytics necessitates the availability of data from various organisational sources. In most cases, these data is fragmented, with bits owned by different departments and in different formats. Unless HR has the full support of senior management, integrating data from the various sources may prove a challenge. Many HR professionals who have failed to make evidence-led initiatives a culture in their organisation point to the challenge of data integration resulting from poor senior management support as their stumbling block.

But HR professionals must also understand that winning senior management support takes time. They would need to educate management on this development and slowly nudge them along this path. Hence, instead of organisation-wide data integration, they should take small steps and work on data that is within their circle of influence. For instance, they could undertake analytics to examine the link between employee training, engagement and employee productivity. Subsequently, they

should take time to communicate their findings and their recommendations on new HR initiatives, and always ensuring the management team understands the process leading to the development of these initiatives. Such actions will slowly lead to a greater acceptance of HR analytics in decision making and stronger management support for future HR initiatives.

Final Thoughts

Small companies that do not embrace analytics may still be able to remain profitable if they are innovative and are able to satisfy unmet needs in the marketplace. However, as these companies grow in size, not using HR analytics for decision making is no longer an option. Mistakes become more costly. Consequently, they must use HR analytics to address HR issues. Companies that are ill prepared for this change will be at a great competitive disadvantage.

As a closing statement to this article, the author suggests this as food for thought 'The company that leads in HR analytics wins the war.'

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